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HARDING CARPETS LIMITED

50TH ANNUAL REPORT, OCTOBER 31, 1977

**50 YEARS
OF CANADIAN
CRAFTSMANSHIP**

DIRECTORS AND OFFICERS

Directors

Ralph M. Barford
President
Valleydene Corporation Limited

Albert Davidson, C.A.
President
Harding Carpets Limited

J. Douglas Gibson, O.B.E.
Chairman of the Board
Consumers' Gas Company Limited

Anthony F. Griffiths
Chairman and Chief Executive Officer
Canadian Cablesystems Limited

C. Malim Harding, O.B.E.
Chairman of the Board
Harding Carpets Limited

John D. Harrison, Q.C., M.B.E.
Partner
Harrison, Elwood

Frank D. Lace, D.S.O., O.B.E.
Partner
A. E. Ames & Co.

J. Donald Mingay, D.S.O., M.B.E.
Management Consultant

William H. Young
President
The Hamilton Group Limited

Officers

C. Malim Harding
Chairman of the Board

Albert Davidson, C.A.
President

Norman J. Bell, C.A.
Vice-President, Administration

Philip L. Guit
Vice-President, Manufacturing

William C. McAllister
Vice-President and General Manager
Seneca Carpet Mills Division

William D. L. Sherren
Vice-President
Styling and Product Development

Colin K. Thompson
Vice-President, Personnel and Industrial Relations

John G. Urquhart
Vice-President and General Manager
Harding Carpets Division

Albert F. Klinkhammer
Secretary-Treasurer

Venture Carpets of Canada Ltd.

René L. Germain, C.A.
Executive Vice-President and General Manager

Stock Exchange Listing

The Toronto Stock Exchange

Transfer Agent and Registrar

Montreal Trust Company
Toronto, Montreal, Regina, Calgary and Vancouver

Bankers

The Royal Bank of Canada
The Toronto-Dominion Bank

Shareholders' Auditors

Price Waterhouse & Co.

The Annual Meeting of shareholders will be held on January 24, 1978, at the Royal York Hotel, Toronto, Ontario, beginning at 2:00 p.m.

HIGHLIGHTS

	Year Ended October 31 1977	Year Ended October 31 1976	Change from 1976
Sales	\$73,034,073	\$74,573,012	- 2%
Net Income	260,130	2,964,324	- 91%
Per Share	.05	.58	- 91%
As a percentage of sales	.4%	4.0%	- 90%
As a percentage of capital employed ¹	2.7%	9.9%	- 73%
As a percentage of shareholders' equity ²	1.2%	14.4%	- 91%
Dividends paid to shareholders	\$.22	\$.28	- 21%
Capital Expenditures	3,091,523	6,616,259	- 53%
Working Capital	14,933,497	18,164,842	- 18%
Ratio of current assets to current liabilities	1.7 to 1	1.8 to 1	
Shares outstanding			
Class A and Class B	3,497,350	3,494,400	-
Class C and Class D	1,612,572	1,611,672	-
Number of shareholders, 98% Canadian (1976 98%)	3,298	3,185	+ 4%
Salaries, wages and employee benefits	\$18,871,970	\$18,656,729	+ 1%
Number of employees (average)	1,542	1,829	- 16%

¹Net income as related to capital employed represents earnings adjusted for the net cost of interest on long term debt and is calculated on total assets less current liabilities at beginning of year.

²Shareholders' equity at beginning of year.

SIGNIFICANT EVENTS

The Company placed major emphasis during the year on developing new carpet styles and improved products in order to respond to adverse market conditions.

Plans were completed to consolidate yarn production at the Collingwood plant and to close the Guelph spinning plant.

Both the Seneca and Venture product lines recorded increased sales, despite the effect of a five-week strike at the Venture manufacturing facilities.

The Company's Export Division takes advantage of the economies of containerization in reaching markets in Australia and the Middle East where Harding products are well established.



REPORT TO SHAREHOLDERS

The past year was difficult for business in Canada and the home furnishing industry has had more than its share of problems. Consumer confidence remained weak throughout the year in the light of an unemployment rate in excess of 8% and continued inflation. As a result, the rate of growth in consumer spending was down from the previous year, particularly in the durable goods sector, excluding autos.

To add to the problems posed by a sluggish economy, the carpet industry opened the year with high inventories at all levels of the trade. Absence of any real growth in the Canadian market since 1974 has left the industry, at least temporarily, with unused capacity. In combination, all these factors produce increased competitiveness. For such a style-conscious industry as ours, new and innovative products must continue to be introduced if a manufacturer is to retain, let alone improve market share.

The Company marked an important anniversary with the theme "50 Years of Canadian Craftsmanship" recognizing the contribution of employees in producing high quality carpet that has made Harding the industry leader in Canada.

Over the year management has accorded priority to changing operations to make the Company more viable in today's carpet market as well as for the future. We have reassessed our needs in terms of spinning capacity and distribution facilities and the results will be reflected in our operations in the coming year.

Major product changes have been accomplished and these too should have a definite impact on 1978 results. Expenses were reduced to a minimum in all areas of operation and capital expenditure projects reviewed thoroughly. These and other planned changes will continue and will strengthen the Company in the current market conditions. Equally important, they will enable us to take advantage of growth opportunities when they return to the industry.

It will be some time before the Canadian economy shows signs of any real buoyancy. However, conditions should gradually improve. The carpet industry is not expected to return to the high rate of expansion of the 1960's and early 1970's but should continue to expand at a better rate than that of the overall economy.

With the maturing of the industry, Harding Carpets should attain an even stronger position in the Canadian market than in the past. We continue, of course, to look for expansion in markets outside Canada as well. Our outlook, generally, is one of cautious

optimism due to the difficulty of forecasting a full recovery of the Canadian market.

Income and Dividends

Consolidated net income for the year was \$260,130 compared to \$2,964,324 in the previous year. Earnings per share were 5.1¢ compared to 58¢ in 1976.

Fourth quarter earnings were 9.8¢ a share compared to 15¢ in the same quarter last year. The loss of earnings at our wholly-owned subsidiary Venture Carpets of Canada Ltd., as a result of a five week strike, were offset by adjustments made in the fourth quarter to earnings reported for earlier months in the year and the inventory allowance provided in the Federal Budget of March 1977.

Excessive inventories at the start of the year, coupled with depressed sales, resulted in a loss in the first quarter of 10.6¢. Increased sales in the second quarter reduced the loss in that quarter to 6/10ths of a cent per share. With an increase in both sales and production levels in the third and fourth quarters, operations were profitable to the extent of 6.5¢ a share in the third quarter and 9.8¢ in the fourth.

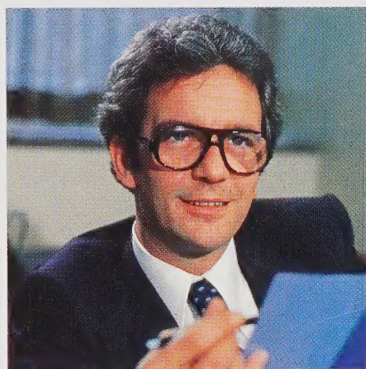
During the year our spinning plants operated well below capacity. Styling changes reduced our requirement for spun yarn and led to the decision to close the Guelph spinning plant by the end of November 1977. Consolidation of yarn production at the Collingwood plant will permit greater utilization of remaining yarn capacity and, with elimination of overhead at Guelph, will contribute substantially to operating results in 1978.

Dividends of 22¢ per share were paid during the year compared to 28¢ in 1976. A dividend of 4¢ per share was declared payable January 4, 1978.

Sales

Sales of \$73,034,073 were down 2% from the previous year. Sales for the year and for the fourth quarter were adversely affected by the strike at Venture Carpets. High inventories in the trade inhibited sales in the early part of the year and retail demand has been weak throughout the whole year.

Export sales in total were off slightly for the year. Australia continued to show improvement as did the Middle East, while sales in Europe declined. Our effort to set up our own distribution in the United States was not successful. In



René L. Germain is Executive Vice-President and General Manager of the wholly-owned subsidiary Venture Carpets of Canada Ltd., which has two manufacturing plants at Drummondville, Quebec. Carpet with the Venture Carpets brand is marketed through a number of independent distributors from Newfoundland to British Columbia.

Below, a knitted continuous "sock" of yarn dyed in the registered Space Color process at Venture Carpets is examined by René Constantin, Manager of Technical Services. The colour combinations, width of the



print lines and spacing can be varied extensively to achieve different effects. After dyeing, the continuous "sock" is de-knitted and the yarn wound on to cones. Unique styling effects are achieved with Space Color yarn.

At right, Club Check of Venture Carpets contains 100% Space Color Nylon yarn in construction that is easy to keep clean and new looking. Its innovative pattern is available in six different colours.



October the inventory was transferred to a New York-based distributor and we are hopeful this arrangement will be more effective in developing export volume in the United States.

The Seneca Carpet Division had another excellent year with a sales increase of 30%. While Seneca is the smallest of the domestic divisions, it is growing at a rate well ahead of the market and hence as a contributor to the Company's results.

Venture Carpets manufactures at Drummondville, Quebec and distributes under its own label through independent distributors across Canada and directly to major retailers. This Division increased sales in 1977 despite the strike in the fourth quarter which resulted in a significant loss of sales.

Apart from the absence of overall carpet market growth in Canada in 1977, other factors have affected Company operations. Styling changes have led to increased use of continuous filament yarn and reduced the consumption of spun yarn. The type of fibre used in accomplishing these style changes also has reduced our dependence on certain fibres that were important to the Company in the past. A major realignment has therefore been required of our product line and the changes in raw materials have produced changes in processing and, in some cases, in equipment.

Our technical and design staff played a major role during the year in developing the new styles and improved products required for the market conditions. Due in part to their efforts, we were able to make increased use of the additional printing capacity installed late in 1976. Many new products introduced during the year are expected to contribute in even greater measure in the year ahead.

Carpet Market

The latest figures published for calendar 1976 indicate the market increased by less than 2%. It is expected the market for 1977 will be approximately the same as in the preceding year.

Carpet prices were relatively stable throughout the year but price increases are expected early in the new year. With the price index at mid-year of 119 (1971 = 100) compared to household furniture at 177 and all manufacturing at 172, carpet continues to outperform most other products.

Carpet imports in 1976 increased by less than 2% in keeping with the market growth and represented 14% of the Canadian market. Imports for the first seven months of 1977 were down

17% and are expected to finish the year down 20%. The increased production of printed carpet in Canada has helped reduce the volume of imports, and the discount on the Canadian dollar will make them less attractive.

While the carpet market is no longer expected to increase at the abnormal pace of the 60's and early 70's, it should grow at a rate in excess of the improvement in the economy. Replacement carpet is an emerging factor in both commercial and domestic installations. New housing contributes to carpet market growth because a large proportion of new dwellings have carpet installed during construction.

Commercial contract volume, weak in the past two years as a result of depressed non-residential construction levels, is expected to show improvement in 1978. In addition, a strengthening in consumer demand and increased business spending forecast for 1978 should benefit home furnishing sales generally.

Financial Resources

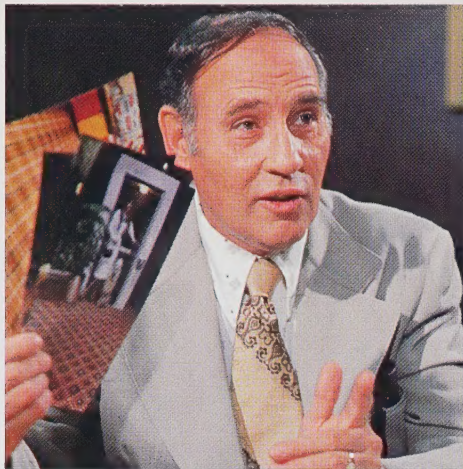
Working capital for the year decreased by \$3,231,345 as shown in the Statement of Changes in Financial Position on Page 13. Capital expenditures less disposals exceeded the depreciation charged in the accounts by \$320,000.

Inventories at \$18,251,259 are down \$3,875,190 from the previous year end. It was reported a year ago that inventories were high and they are now at a level more in keeping with the current volume of business.

Capital Expenditures

Capital expenditures of \$3,091,523 were down substantially from the previous year and from our original estimate. The new plant at Brantford represented a major part of these expenditures together with an addition to the Toronto warehouse, additional tufting and yarn processing capacity for Venture Carpets and measures for energy conservation and pollution control.

Capital additions in the forthcoming year are expected to be about \$1,900,000 but this could be offset by the disposal of our Guelph plant and steps being taken to reduce our investment in regional distribution facilities.



Vice-President and General Manager of the Harding Carpets Division, John G. Urquhart is based in Rexdale, Ontario, location of the Division's principal distribution centre. The Harding Carpet Division distributes all Harding Carpet brand products through its own warehouse facilities in Moncton, Montreal, Winnipeg, Calgary and Vancouver.

Below, Aladdin by Harding Carpets makes colour coordinating easy thanks to its multi-coloured styling. Moderately priced, it is made of 100% Nylon and treated with "SCOTCHGARD" Carpet Protector.



At left, Head Stylist Dave Jarvie displays test samples of new carpet designs intended for commercial use. Both are of hard-wearing 18 ounce Antron II Nylon and have double jute backing. This type of carpet is also suitable for any heavy traffic area in the house, such as hallways, stairs, rec rooms and kitchens. The pile is treated with "SCOTCHGARD" Carpet Protector and 3M Static Control.

Personnel

The average number of employees throughout the year was 1,542 and the number at year end 1,543.

The Company contributed \$320,884 to Company and government pension plans for the benefit of employees.

Two union contracts were negotiated during the year. Four contracts expire in 1978 covering employees at the Collingwood and Brantford plants and the staff at our Vancouver distribution centre.

The past year has been a difficult one for the Company and particularly so for the management and staff who have given their wholehearted support for the many necessary changes. The loyalty and cooperation of all employees, together with that of our customers and suppliers, is much appreciated.

Annual Meeting

The Annual Meeting of Shareholders will be held on Tuesday, January 24, 1978, at 2.00 p.m. at the Royal York Hotel, Toronto. We welcome this opportunity to meet with shareholders and discuss the affairs of the Company.

On behalf of the Board,

C. M. Harding *A. Davidson*
Chairman of the Board President

December 13, 1977

CANADIAN MARKET

Estimated

Exports & Automotive Carpet have been excluded. Adjustments from previous reports have been made in accordance with latest available information.

The U.K. definition of Household was redefined, hence the above consumption per square yard data is revised from prior reports.

	Total Square Yards Canadian Market (000's)	Percentage of Total Supplied by Canadian Mills	Consumption in Square Yards					
			Canada		U.S.A.		U.K.	
			Per Household	Per Capita	Per Household	Per Capita	Per Household	Per Capita
1967	25,355	88.7	5.04	1.24	7.53	2.23	5.53	1.81
1968	31,193	87.4	5.78	1.51	8.60	2.59	5.91	1.96
1969	38,369	88.2	6.96	1.83	9.68	2.95	5.72	1.91
1970	38,766	90.0	6.87	1.82	10.21	3.13	6.18	2.09
1971	47,720	90.1	8.26	2.21	10.89	3.41	6.80	2.33
1972	65,358	89.2	10.70	3.00	13.31	4.25	7.86	2.71
1973	79,467	87.9	12.68	3.60	13.98	4.54	8.17	2.84
1974	87,995	86.6	13.55	3.92	12.51	4.13	7.44	2.61
1975	85,393	85.6	12.74	3.75	10.83	3.61	8.11	2.88
1976	86,813	85.6	12.55	3.78	11.64	3.94	8.46	2.99
% Increase (Decrease)								
1967-1977	242.4	(3.5)	149.0	204.8	54.6	76.7	53.0	65.2



Operations of the Seneca Carpet Division are directed by William C. McAllister, Vice-President and General Manager, who is based in Toronto. Carpet with the Seneca label is produced at both the Brantford and Collingwood plants. Independent distribution firms serve dealers across Canada.

Anne J. Brooks is co-ordinator of Merchandising and Marketing for the Seneca Carpet Division, directing the sampling program for introduction of new lines, product information for distributors and preparation of advertising and merchandising aids.

At right, Mayfield from Seneca Carpets utilizes the full colour capabilities of the Company's Mitter printer. The easy care loop pile yarn is 100% Nylon treated with "SCOTCHGARD" Carpet Protector and 3M Static Control.



50 YEARS OF CANADIAN CRAFTSMANSHIP

A guiding consideration of the Company's founder, C. Victor Harding, was that Harding Carpets Limited was going to be in business for a long time. The durability of that consideration is evident in many ways today, 50 years later – in a well-established employee benefit program, in the proportion of modern equipment, in the amount of earnings reinvested annually in expansion, and in the increasing number of career opportunities available to staff.

Within three years of the start of Harding manufacturing at Brantford, Ontario in 1927, Canada was in the midst of the de-

pression. The interest, enthusiasm and team spirit of employees was an important factor in the Company's survival in those early years.

In spite of the growth in number of carpet manufacturers in Canada from four at the end of World War II to twenty-six today, Harding Carpets Limited continues to lead the industry in size and innovation. And Harding remains almost totally Canadian-owned, while most of its competitors are foreign-owned or controlled.



Vice-Royal visit 1929



Wilton weaving shed 1920



Axminster loom 1949

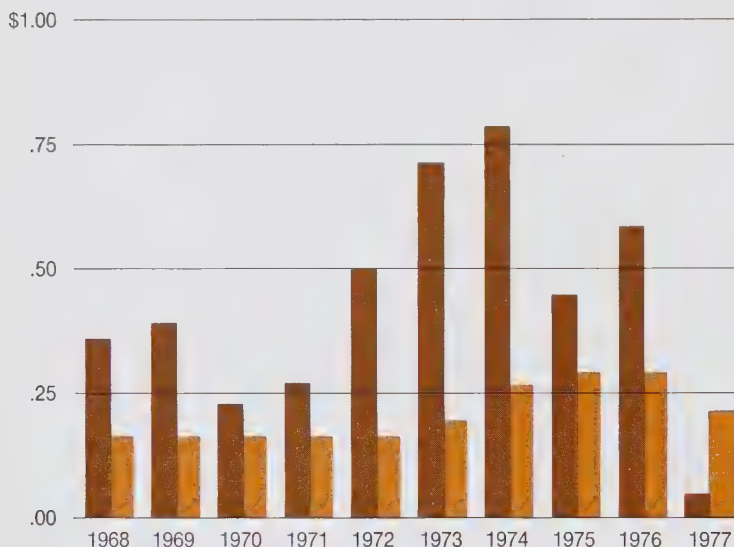


Shipment for Royal York Hotel 1929

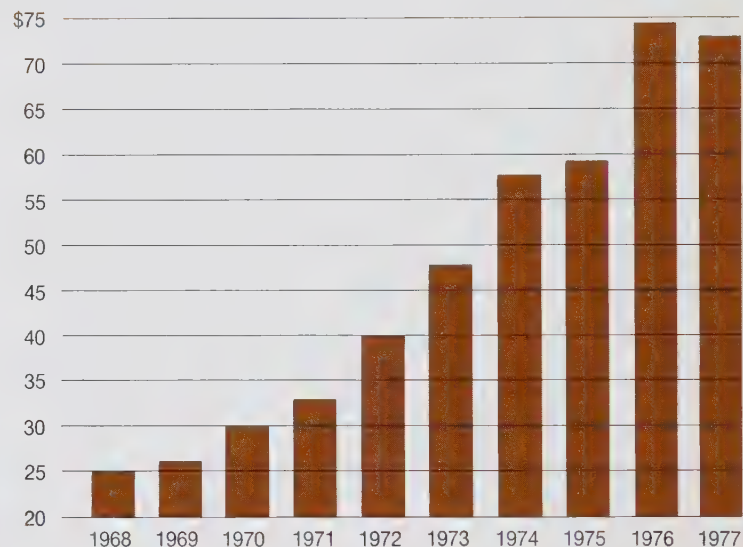
INDICATORS OF COMPANY GROWTH

Earnings and Dividends
(Per Class A and Class C share
adjusted to reflect subdivision
of shares February 13, 1973)

■ Earnings
■ Dividends

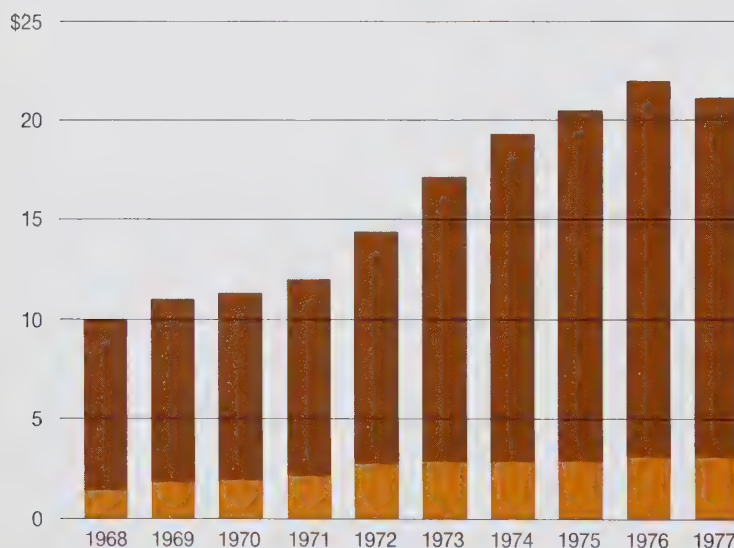


Net Sales
(Expressed in millions
of dollars)



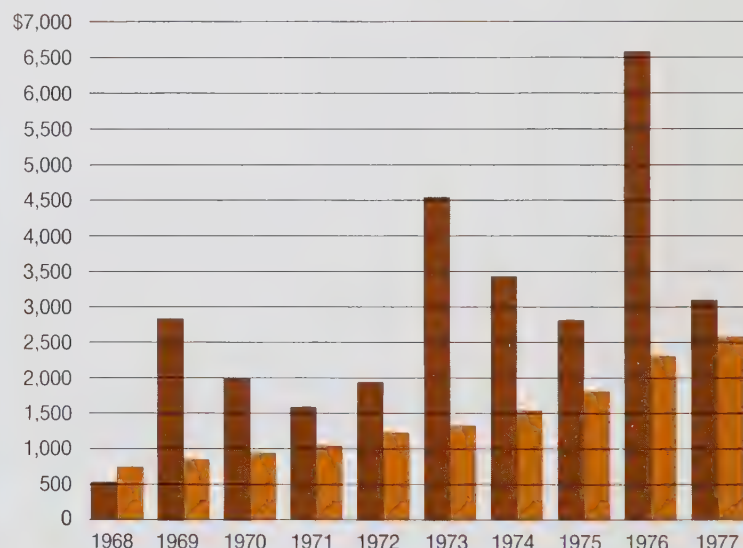
Shareholders' Equity
(Expressed in millions
of dollars)

■ Retained Earnings
■ Capital Stock



**Capital Expenditures
and Depreciation**
(000's omitted)

■ Capital Expenditures
■ Depreciation



These charts reflect the Company's progress over the 10-year period ending October 31, 1977.


CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS


	Year Ended October 31 1977	Year Ended October 31 1976
Sales	\$73,034,073	\$74,573,012
Cost of Sales	57,654,127	55,581,679
Gross Profit from Operations	15,379,946	18,991,333
Deduct the following items:		
Selling, administrative and distribution expense	12,368,994	11,507,692
Interest on long term debt	1,689,006	1,474,511
Other interest	1,273,816	1,199,024
	15,331,816	14,181,227
Income Before Taxes	48,130	4,810,106
Provision for (recovery of) Taxes on Income (Note 9)	(212,000)	1,845,782
Net Income for the year	260,130	2,964,324
 Add: Retained Earnings at beginning of year	 18,940,950	 17,422,504
	19,201,080	20,386,828
Less: Dividends paid and related taxes thereon	1,108,878	1,445,878
Retained Earnings at end of year	\$18,092,202	\$18,940,950
 Earnings per share	 \$.05	 \$.58

CONSOLIDATED BALANCE SHEET

Assets	October 31 1977	October 31 1976
Current		
Accounts receivable, less allowance for doubtful accounts	\$18,579,698	\$17,890,182
Inventories (Notes 1 (b) and 2)	18,251,259	22,126,449
Prepaid expenses	1,055,332	682,306
Total Current Assets	37,886,289	40,698,937
Fixed (Notes 1 (c) & 3)		
Land, buildings and equipment	43,872,206	41,869,105
Less: Accumulated depreciation	16,048,485	14,365,273
	27,823,721	27,503,832
	\$65,710,010	\$68,202,769
Liabilities		
Current		
Bank advances	\$13,946,540	\$12,488,495
Accounts payable and accrued liabilities	7,841,510	8,739,645
Income taxes payable	174,742	101,953
Instalments on long term debt due within one year	990,000	1,204,002
Total Current Liabilities	22,952,792	22,534,095
Long Term Debt (Note 4)	16,440,015	17,430,011
Deferred Income Taxes (Note 1 (d))	5,045,084	6,132,846
Shareholders' Equity		
Capital Stock (Notes 5 and 6)	3,179,917	3,164,867
Retained Earnings	18,092,202	18,940,950
	21,272,119	22,105,817
	\$65,710,010	\$68,202,769

Approved by the Board,


Director


Director

Harding Carpets Limited
and subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended October 31 1977	Year Ended October 31 1976
Financial Resources Were Provided By		
Operations –		
Net Income for the year	\$ 260,130	\$ 2,964,324
Charges (credits) not involving current funds:		
Depreciation	2,582,729	2,284,218
Deferred income taxes	(1,087,762)	827,753
	<u>1,755,097</u>	<u>6,076,295</u>
Issue of capital stock (Note 6)	15,050	49,207
Issue of Series E debentures	–	5,500,000
Fixed asset disposals	188,905	280,241
	<u>1,959,052</u>	<u>11,905,743</u>
Financial Resources Were Used For		
Expenditures on fixed assets	3,091,523	6,616,259
Dividends paid and related taxes thereon	1,108,878	1,445,878
Reduction in long term debt	989,996	1,204,002
	<u>5,190,397</u>	<u>9,266,139</u>
Increase (Decrease) in working capital	(3,231,345)	2,639,604
Working capital at beginning of year	18,164,842	15,525,238
Working capital at end of year	<u>\$14,933,497</u>	<u>\$18,164,842</u>

NOTES TO FINANCIAL STATEMENTS

Year Ended October 31, 1977

Note 1 – Accounting Policies

(a) *Principles of Consolidation* – The consolidated financial statements include the accounts of Harding Carpets Limited and its subsidiaries, all of which are wholly owned.

(b) *Inventories* – Inventories of raw materials and goods in process are valued at the lower of cost and replacement cost and inventories of finished goods at the lower of cost and net realizable value, all consistent with prior years.

(c) *Fixed Assets and Depreciation* – Fixed assets are stated at cost. Cost includes freight and installation charges where applicable. Depreciation charged on the books is based on straight line rates of 2½ % for buildings and 9% for machinery and equipment. Gains and losses on disposal of fixed assets are included in earnings and the costs and accumulated depreciation related to these assets are removed from the accounts.

(d) *Income Taxes* – Deferred taxes arise as a result of claiming for income tax purposes capital cost allowances which have been in excess of depreciation recorded in the accounts. Federal tax credits are recognized as a reduction of income taxes when earned.

(e) *Earnings Per Share* – Earnings per share are calculated based on the weighted monthly average of the number of shares outstanding during the year or the lesser period under review in the case of quarterly reporting.

(f) *Other Significant Policies* – Research and development cost, development of new products, advertising, sales promotion and systems development expenses are charged against income as incurred.

Note 2 – Consolidated Inventories

	1977	1976
Raw Materials	\$2,655,424	\$ 2,449,822
Goods in Process	5,131,490	6,827,732
Finished Goods	10,464,345	12,848,895
	<u>\$18,251,259</u>	<u>\$22,126,449</u>

Note 3 – Consolidated Fixed Assets

	1977		1976	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 943,384	\$ –	\$ 934,284	\$ –
Buildings	16,363,646	3,235,137	14,872,004	3,108,317
Machinery & Equipment	26,565,176	12,813,348	26,062,817	11,256,956
	<u>\$43,872,206</u>	<u>\$16,048,485</u>	<u>\$41,869,105</u>	<u>\$14,365,273</u>

Note 4 – Long Term Debt

(a) Secured by a floating charge in favour of the debenture holders.

Series A, 6% 1984	\$2,100,000
The sinking fund requirements call for payments of \$200,000 per year, leaving a balance of \$900,000 due in 1984.	
Series B, 6¾ % 1987	1,555,000
The sinking fund requirements call for payments of \$105,000 per year, leaving a balance of \$610,000 due in 1987.	
Series C, 8½ % 1992	2,700,000
The sinking fund requirements call for payments of \$125,000 per year through 1986 and \$155,000 per year from 1987 through 1991, leaving a balance of \$800,000 due in 1992.	
Series D, 10¼ % 1994	5,540,000
The sinking fund requirements call for payments of \$230,000 per year through 1988 and \$290,000 per year from 1989 through 1993, leaving a balance of \$1,560,000 due in 1994.	
Series E, 11% % 1994	5,290,000
The sinking fund requirements call for payments of \$210,000 per year through 1988 and \$265,000 per year from 1989 through 1993, leaving a balance of \$1,655,000 due in 1994.	
	<u>\$17,185,000</u>

The Trust Indentures underlying the outstanding debentures contain covenants which place limitations on the payment of dividends. The amount of consolidated retained earnings free from restriction as of October 31, 1977 was \$917,969. This amount will increase if future earnings exceed dividends distributed to shareholders.

(b) Long term debt of subsidiary, Venture Carpets of Canada Ltd., secured by fixed and/or floating charges on its fixed assets, incurred prior to acquisition September 1, 1975, at interest rates varying from 8 to 11¼ % requires principal payments of \$120,000 and \$45,007 in each of the years 1978 and 1979 respectively and \$20,000 in each of the years 1980 to 1983.

	\$ 245,015
	<u>\$17,430,015</u>
Less instalments due within one year	990,000
	<u>\$16,440,015</u>

(c) Long term debt instalments in the aggregate of \$990,000 and \$915,000 are payable in 1978 and 1979 respectively and \$890,000 in each of the years 1980 to 1982.

Note 5 – Capital Stock

	Authorized	Issued and Outstanding
Class A and Class B non-voting, interconvertible shares with a par value of 16⅔ ¢	6,000,000	3,497,350
Class C and Class D voting, interconvertible shares without par value	2,999,000	1,612,472
Common shares without par value	1,000	–
	<u>9,000,000</u>	<u>5,109,822</u>

Class B and Class D shareholders may receive dividends out of tax paid undistributed surplus on hand and 1971 capital surplus on hand. These dividends will be an amount equivalent to the dividends paid on Class A and Class C shares less applicable taxes, if any.

The Valuation Day price for the Class A and Class B shares is \$4.83 and for Class C and Class D shares is \$4.96.

Note 6 – Employees' Stock Options

Options for 2,950 Class A and 800 Class C shares were exercised during the year ended October 31, 1977 for a cash consideration of \$15,050. Options for 83,000 Class A shares and 2,200 Class C shares were granted to staff members during the year. Options outstanding October 31, 1977 were as follows:

Expiration Date of Options	Class A		Class C	
	Number of Shares	Option Price Per Share	Number of Shares	Option Price Per Share
Nov. 8/77	44,400	\$4.05	–	–
Nov. 7/83	70,050	4.095	1,600	\$3.825
Nov. 5/84	76,000	5.125	2,200	4.60
	<u>190,450</u>		<u>3,800</u>	

Options outstanding October 31, 1977 do not vary significantly the diluted share earnings from reported share earnings.

Note 7 – Directors' and Senior Officers' Remuneration

Remuneration to directors and senior officers totalled \$624,000 for 17 persons during the year ended October 31, 1977 (17 persons – \$596,000 in 1976).

Note 8 – Pensions

In 1948, the Company introduced its Employees' Pension Plan. This Plan was integrated with the Canada Pension Plan and the Quebec Pension Plan in 1966. The Plan is contributory and the liability for past service is fully funded.

The Deferred Profit Sharing Plan was introduced in 1960. It is a trustee plan which is paid for completely by the Company and has to date been mainly invested in the shares of Harding Carpets Limited.

Since 1948, net pension and profit sharing contributions have been as follows:

	Company Net Contributions	Employee Net Contributions
Employees' Pension Plan	\$3,110,429	\$2,818,438
Canada Pension and Quebec Pension Plan	1,447,484	1,447,484
Deferred Profit Sharing Plan*	527,402	–
	<u>\$5,085,315</u>	<u>\$4,265,922</u>

*The market value of the Deferred Profit Sharing Plan fund at October 31, 1977 was \$397,471.

The cost to the Company of the Pension Plans in 1977 was \$320,884 (1976 – \$613,976). Company and employee contributions have been restated for fiscal year 1976 to properly include those of Venture Carpets of Canada Ltd. since September 1, 1975. No contributions were made to the Deferred Profit Sharing Plan in either year.

Note 9 – Taxes on Income

Taxes for the year have been reduced by the proposed 3% Federal inventory allowance amounting to \$162,000 (3¢ per share). At the date of this report, legislation implementing the provisions of the March 31, 1977 Budget had not been passed by Parliament, but there is every indication that the Budget proposals will be enacted.

Note 10 – Anti-Inflation Program

The Company and its subsidiaries are subject to controls on prices, profits, dividends and compensation instituted by the Federal Government in the Anti-Inflation Act effective October 14, 1975. The Company believes it has complied with the guidelines since their announcement.

Note 11 – Events subsequent to Balance Sheet date

In December 1977, the Company was informed that the Seneca distributor for Quebec and the Maritimes had been placed into liquidation. The Company has an account receivable of approximately \$170,000 with the distributor and at this date has no indication as to the extent of recovery. The Company's allowance for doubtful accounts is considered adequate to provide for any ultimate loss.

TEN YEAR FINANCIAL SUMMARY

(000's omitted).

Year Ended October 31

Operating Results	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
Sales	\$73,034	\$74,573	\$58,748	\$57,339	\$47,683	\$40,076	\$32,967	\$30,035	\$26,842	\$24,958
Depreciation	2,583	2,284	1,816	1,566	1,311	1,253	1,053	957	889	765
Interest	2,963	2,674	1,580	1,422	876	761	836	888	514	624
Income before taxes	48	4,810	3,681	6,832	6,313	4,706	2,539	2,013	3,651	3,238
Income taxes	(212)	1,846	1,552	2,907	2,774	2,195	1,240	960	1,814	1,545
Net Income¹	\$ 260	\$ 2,964	\$ 2,129	\$ 3,925	\$ 3,539	\$ 2,511	\$ 1,299	\$ 1,053	\$ 1,837	\$ 1,693
Per share ²	.05	.58	.42	.77	.70	.50	.27	.22	.38	.36
As a percentage of sales	.4%	4.0%	3.6%	6.8%	7.4%	6.3%	3.9%	3.5%	6.8%	6.8%
As a percentage of capital employed	2.7%	9.9%	7.5%	15.7%	15.2%	13.4%	7.4%	6.3%	10.6%	10.6%
As a percentage of shareholders' equity	1.2%	14.4%	10.8%	22.9%	24.5%	20.7%	11.4%	9.6%	18.3%	18.8%
Dividends Paid	\$ 1,109	\$ 1,446	\$ 1,420	\$ 1,329	\$ 960	\$ 796	\$ 776	\$ 770	\$ 765	\$ 755
Per share ²	.22	.28	.28	.26	.19	.16	.16	.16	.16	.16
Retained Earnings for Year	\$ (849)	\$ 1,518	\$ 709	\$ 2,596	\$ 2,579	\$ 1,715	\$ 523	\$ 283	\$ 710	\$ 938
Other Financial Data										
Capital expenditures	\$ 3,092	\$ 6,616	\$ 2,822	\$ 3,447	\$ 4,534	\$ 1,923	\$ 1,624	\$ 2,025	\$ 2,887	\$ 566
Working capital	14,933	18,165	15,525	19,227	11,875	12,086	8,311	8,240	8,972	10,213
Ratio of current assets to current liabilities	1.7 to 1	1.8 to 1	1.7 to 1	2.7 to 1	1.9 to 1	2.5 to 1	1.7 to 1	1.7 to 1	1.9 to 1	3.5 to 1
Inventories	\$18,251	\$22,126	\$16,433	\$16,617	\$13,175	\$10,606	\$11,396	\$11,274	\$11,324	\$ 8,359
Fixed assets (net)	27,824	27,504	23,452	17,933	16,223	13,227	12,626	12,209	11,212	9,235
Long term debt	16,440	17,430	13,134	13,215	7,645	8,075	5,791	6,312	6,824	7,095
Shareholders' Equity	\$21,272	\$22,106	\$20,538	\$19,766	\$17,113	\$14,427	\$12,116	\$11,407	\$10,961	\$10,034
Shareholders' equity per share	4.16	4.33	4.03	3.89	3.38	2.86	2.48	2.37	2.29	2.12

Auditors' Report To The Shareholders of Harding Carpets Limited

We have examined the consolidated balance sheet of Harding Carpets Limited and its subsidiaries as at October 31, 1977 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of accounting records and other procedures as we as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at October 31, 1977 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Chartered Accountants

Toronto, December 6, 1977

¹The net income for the years 1965 to 1973 has benefited under designated area legislation. For the years 1965 to 1967 taxation was reduced and from 1967 to 1973 income included grants for the Collingwood plant. Net income in 1969 is shown before extraordinary item less applicable income taxes representing national distribution start-up costs.

²Adjusted to reflect subdivision of each Class A and Class C share on February 13, 1973.

HARDING CARPETS



LES TAPIS HARDING



TAPIS **Seneca** CARPETS

Head Office

*Morrell Street, Brantford, Ontario
N3T 5R3*

Executive Office

*60 Yonge Street, Toronto, Ontario
M5E 1H5*

Harding Carpets Division

*35 Worcester Rd., Rexdale, Ontario
M9W 1K9*

Seneca Carpet Mills

*60 Yonge Street, Toronto, Ontario
M5E 1H5*

Venture Carpets of Canada Ltd.

*1600 Janelle Street, Drummondville, Quebec
J2B 6V6*

Export Division

*Morrell Street, Brantford, Ontario
N3T 5R3*

Australian Office

*169 Miller Street, North Sydney, N.S.W.
2060*

Manufacturing Facilities

Brantford, Collingwood and Drummondville

Harding-owned Distribution Centres

Vancouver – 4616 Canada Way, North Burnaby, B.C. V5G 1K7

Calgary – 3030-9th Street, S.E. Calgary, Alberta T2G 3B9

Winnipeg – 1555 Inkster Blvd., Winnipeg, Manitoba R2X 1R2

Toronto – 35 Worcester Road, Rexdale, Ontario M9W 1K9

Montreal – 1475 Montee de Liesse, St. Laurent, Quebec H4S 1J7

Moncton – 1220 St. George Blvd. Moncton, N.B. E1C 8R9

Seneca Carpet Distributors

Western – Triple "C" Floorings Limited

Venture Carpet Distributors

Newfoundland – Steers Limited

Atlantic – Alliance Distributors Limited

Quebec – Richelieu Flooring Distributors Inc.

Ontario – Laing Carpet Distributors Limited

Prairies – Primco (Western) Limited

British Columbia – Cavco Carpet Distributors Limited

